



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2011

POSSIBLE ANSWERS

MARKS: 300

This memorandum consists of 16 pages.

QUESTION 1**1.1 Explain why a business needs to prepare a Cash Budget every year.**

Any valid explanation ✓✓

A business needs to plan for future receipts and payments in order to ensure that they have enough cash or to arrange for an overdraft/loan.

2

1.2 Calculate the figures indicated by A – E in the cash budget.

A	R123 000 ✓
B	R168 000 ✓
C	(R250 000) ✓
D	R168 000 ✓
E	(R82 000) ✓

5

1.3 The rent income increased by 8% from 1 January 2011. Calculate the rent income figure for January 2011. $9\,000 \checkmark \times 1,08\% \checkmark = R9\,720 \checkmark$

3

1.4 Calculate the percentage increase granted to the employees from 1 January 2011. $4\,200 \checkmark / 105\,000 \checkmark \times 100 = 4\% \checkmark$ **In your opinion, will the employees be satisfied with this increase? Briefly explain.**

Yes/No ✓

Any valid explanation ✓✓

Example: This increase of 4% is lower/higher than the inflation rate.

6

1.5

As the internal auditor you discover that the actual motor vehicle expenses for December 2010 were R5 420. Name TWO points that you would include in your internal auditors' report to Alfred.

TWO valid points ✓✓ ✓✓

Possible answers:

- The actual motor expenses for December of R5 420 exceeded the budgeted amount of R4 000. A difference of R1 420.
- Alfred needs to investigate the use of the vehicles in order to ensure that these vehicles are used responsibly.
- Alfred needs to ensure that the vehicles are serviced regularly in order to avoid breakdowns and other related expenses.

4

1.6

Calculate the interest payable to Eastbank in February 2011.

$$139\,500 \times 80\% = 111\,600 \checkmark \times 11\% \checkmark / 12 \checkmark = R1\,023 \checkmark$$

Calculate the monthly repayments of the capital portion of the loan to Eastbank.

$$111\,600 \checkmark / 36 \text{ months } \checkmark = R3\,100 \checkmark$$

8

1.7

Calculate the expected receipts from debtors for January 2010.

$$R225\,000 \checkmark / 75\% \checkmark \\ = R300\,000$$

$$R300\,000 \checkmark \times 25\% \checkmark = R75\,000 \checkmark \times 95\% \checkmark \\ = R71\,250 \checkmark$$

7

**TOTAL
MARKS**

35

QUESTION 2**2.1**

SA Traders requires their new customers to provide personal details, including proof of residence, before opening accounts. Briefly explain why this is necessary. (Name TWO points.)

Any TWO valid points ✓✓ ✓✓

Possible explanation:

- It is essential for a business to know the addresses so that they can send statements promptly to debtors to ensure that they pay on time.
- If any debtors do not settle their accounts it will be necessary for the business to take legal action against them in which case the addresses will be essential in order to serve the legal documents on them.
- The National Credit Act requires a business to check whether a potential debtor can afford to purchase on credit. Addresses are part of the personal history of the customer.

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2.2

Prepare the correct Debtors' List on 31 August 2010.

Debtors' List on 31 August 2010		R
	Sunnyside Traders (17 600 ✓ + 165 ✓ + 2 310 ✓ + 13 200 ✓)	✓33 275
	Thembisa Traders (55 473 ✓ – [3 080 ✓ + 3 080 ✓] – 13 200 ✓ + 350 ✓)	✓36 463
	Tildai Suppliers (3 400 ✓ – 2 124 ✓)	✓ 1 276
	Mondo Stores (660-660)	✓✓ Nil
		✓71 014

List of adjustments to Debtors' Control Account

Amount	Account debited	Account credited
R165 ✓	Debtors' control ✓	Interest income ✓
R2 310 ✓	Debtors' control ✓	VAT output/control ✓
R2 124 ✓	Creditors' control ✓	Debtors' control ✓

26

**TOTAL
MARKS**

30

QUESTION 3**3.1**

3.1.1	True ✓✓	
3.1.2	False ✓✓	
3.1.3	False ✓✓	
3.1.4	True ✓✓	
3.1.5	False ✓✓	
		10

3.2.1

Calculate the value of raw materials on hand on 28 February 2010 using the FIFO method.

$$105\,600 \checkmark + (2\,100 \checkmark \times R42 \checkmark) = 193\,800 \checkmark$$

5

3.2.2

Calculate the value of raw material cost that would appear in the Production Cost Statement.

$$21\,000 \checkmark + 490\,600 \checkmark - 193\,800 \checkmark = 317\,800 \checkmark$$

4

3.3

Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010.

$$\begin{array}{lcl} \text{Normal time} & = & 5 \times 5\,000 \times 12 = \quad R300\,000 \checkmark \checkmark \\ \text{Overtime} & = & 180 \times 70 \times 5 = \quad R63\,000 \checkmark \checkmark \\ \text{UIF + Pension} & = & 300\,000 \times 11\% \quad R33\,000 \checkmark \checkmark \\ & & \underline{R\,396\,000 \checkmark} \end{array}$$

7

3.4.1

Calculate the total production cost of finished goods.

$$\begin{array}{l} 317\,800 \checkmark + 396\,000 \checkmark + (67,55 \checkmark \times 4\,000 \checkmark) \\ = R984\,000 \checkmark \end{array}$$

5

3.4.2

Calculate the unit cost of production (per raincoat).

$$R984\,000 \checkmark / 4\,000 \checkmark = R246 \checkmark$$

3

3.5.1

Identify the number of metres of raw material fabric that appear to be missing.

$$9\,100 \checkmark - (1,8 \checkmark \times 4\,000 \checkmark) = 1\,900 \text{ metres } \checkmark \checkmark$$

5

3.5.2 Apart from theft, give ONE most likely reason for this shortage.

Valid reason ✓✓

Possible reasons:

- Wastage during production
- Unskilled employees
- Unusable materials/off-cuts

What advice could you offer Java in this regard? Name ONE point.

Advice ✓✓

- Better supervision during production
- Control over allocation of raw materials
- Training of employees
- Use good quality material

4

3.6.1 Calculate the break-even point for the current financial year.

Fixed costs
SP per unit – Variable costs per unit

350 200 ✓
350 ✓ – 215,95 ✓

350 200
134,05

2 612,45
2 613 units ☒

4

3.6.2 The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 3.6.1? Briefly explain.

Java should be satisfied. ✓

The business has produced 4 000 units while break even is 2 613 units.
✓✓

OR Dissatisfied ✓ the break even of 2 613 units is higher than 2 273 in 2009. ✓✓

3

TOTAL MARKS
50

QUESTION 4.1

- 4.1** Choose a description from COLUMN B that matches a concept in COLUMN A.

COLUMN	COLUMN
4.1.1	C ✓✓
4.1.2	D ✓✓
4.1.3	B ✓✓
4.1.4	A ✓✓

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4.2

General Ledger of Manic Limited
Asset Disposal Account

2010 March	1	Equipment ✓	✓✓ 492 000	2010 March	1	Accumulated depreciation on equipment ✓	☑☑ 122 000
						Bank ✓	✓✓ 370 000
			492 000				492 000

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4.3

List the **THREE** most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case.

Fixed assets purchased for R4 858 000 ✓✓

Loans were raised for R2 600 000 ✓✓

Shares were issued for R980 000 ✓✓

Comment on any **TWO** interesting points indicated in the Cash Flow Statement. Name **TWO** points and quote figures to support your answer.

Any TWO valid points ✓✓ ✓✓

Possible answers:

- The significant increase in fixed assets (R2 600 000) should benefit the company in future by creating the capacity to earn bigger profits.
- The operating activities generated a positive cash flow of R1 370 000 before paying interest, dividends and income tax.
- The significant increase in loans of R2 600 000 would be a concern because ROTCE of 12,8% is lower than the interest rate on the loan from Hard Bank.
- The decline in cash resources from R50 000 to R20 000 could be a small concern especially as the investments were also reduced by R140 000.

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4.4

Operating profit on turnover

$650\,000 \checkmark / 2\,730\,000 \checkmark \times 100 = 23,8\% \checkmark$

Acid-test ratio

$(610\,000 \checkmark - 410\,000 \checkmark) : 360\,000 \checkmark = 0,56 : 1$ or $0,6 : 1 \checkmark$

OR

$180\,000 + 20\,000 : 360\,000 = 0,56 : 1$ or $0,6 : 1$

Earnings per share

$R308\,000 \checkmark / 1\,500\,000 \checkmark \checkmark \text{ shares} = 20,5 \text{ cents } \checkmark$

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4.5

Comment on the operating efficiency of the company for the year ended 30 June 2010. Quote TWO financial indicators or figures to support your comments.

Mention TWO relevant financial indicators ✓ ✓

Quoting of figures ✓ ✓

Mentioning the trends ✓ ✓

Possible answers:

- Operating expenses on sales improved from 33,1% to 28,6% indicating better control over the operating expenses.
- Operating profit on sales improved from 17,5% to 23,8% indicating improved profitability of the business.
- Net profit after tax on sales improved from 8,2% to 11,3% indicating better overall profitability even after payment of interest and tax.

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4.6

Comment on the liquidity of the company for the year ended 30 June 2010. Quote THREE financial indicators or figures to support your comments.

Mention THREE relevant financial indicators ✓ ✓ ✓

Quoting of figures ✓ ✓ ✓

Mentioning the trends ✓ ✓ ✓

- Current ratio is approximately the same in both years (1,9 : 1 to 1,7 : 1) – This indicates that current assets exceed the current liabilities. (NB. No norm – the business has existed on similar ratios for the past two years.)
- Acid-test ratio is approximately the same in both years (0,6 : 1 to 0,7 : 1). Although liquid assets are less than the current liabilities the business is obviously able to settle its current debts as they have existed with similar ratios for the past two years.
- Stock period has worsened from 85 days to 136 days. This could place strain on cash resources as stock is not being sold as quickly as it was in the previous year.
- Debtors' period has improved from 30 days to 23 days. This will assist the cash-flow situation as debtors are paying more quickly than the previous year.
- Creditors' period has decreased from 42 days to 38 days. This figure will have to be checked against the credit terms allowed by the creditors to ensure that the company's credit rating is not negatively affected.

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4.7

Comment on the returns, earnings and dividends earned by the shareholders for the year ended 30 June 2010. Quote THREE financial indicators or figures to support your comments.

Mention THREE relevant financial indicators ✓ ✓ ✓

Quoting of figures ✓ ✓ ✓

Mentioning the trends ✓ ✓ ✓

EPS improved from 18 to 20,5 cents per share.

DPS improved from 12 to 26 cents per share.

Although these indicators represent an improvement, the shareholders will be concerned that the company paid out more dividends than what was earned. This means that the company is not retaining any of its current profits for future expansion.

ROSHE improved from 7,2% to 8,6%. Although there was an improvement this return does not exceed returns on alternative investments and will therefore not satisfy the shareholders.

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4.8.1

Explain your opinion on the attendance of shareholders at the AGM.

Good answer = 3 marks; satisfactory answer = 2 marks; poor answer = 1 mark; incorrect answer = 0 marks ✓✓✓

Expected response:

The shareholders should all try to attend the AGM or at least appoint a proxy to make decisions on their behalf at the AGM. The shareholders appoint the directors and the directors make the day-to-day decisions. When shareholders do not attend the AGM they are effectively handing over more control to the directors.

3

4.8.2 What is meant by a *qualified audit report*? Explain.

Expected response: ✓✓

The independent auditors are specifically drawing attention to an aspect of the financial statements that is of major concern to them.

How does this type of report affect the company and the shareholders? Explain.

Expected response: ✓✓

The shareholders will not be able to rely on certain aspects of the financial statements when making their decisions about their investment in the company. The company will get a bad reputation and this will affect their ability to raise further capital or business in future.

Why did the independent auditors issue a qualified report in respect of this asset? Explain.

Expected response: ✓✓

The auditors are obviously not happy that this is a genuine business asset. The purchase has affected the loans that have been raised and this has an effect on the profits earned. The directors have misrepresented this asset in the balance sheet and in the directors' report. The directors are receiving a benefit from this asset which should be declared in the financial statements and might have tax implications.

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4.8.3 Explain why several of the shareholders would think that the long-term prospects of the company are being threatened. Mention corporate governance in your answer.

Expected response: ✓✓ ✓✓

A significant asset has been purchased that is apparently not going to benefit the company in future – loans have been raised to finance this and interest will have to be paid on those loans.

The CEO has been granted a 60% increase in his remuneration despite the fact that the company has not performed extraordinarily well over the past years. It could be that the CEO is manipulating the remunerations committee to support his own agendas.

4

TOTAL
MARKS

75

QUESTION 5**5.1****General Ledger of Headwork Limited
SARS (INCOME TAX)**

2009 Oct	30	Bank ✓		✓ 11 000	2009 Oct	1	Balance	b/d	✓ 11 000
		Bank ✓		✓ 115 000	2010 Sept	30	Income tax ✓		✓ 243 600
		Bank ✓		☑ 109 200					
		Balance	c/d	✓ 19 400					
				254 600		☑			254 600
					2010 Oct	1	Balance	b/d	☑ 19 400

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5.2.1 NOTES TO THE BALANCE SHEET**Note 1. Retained income**

Balance at the beginning of the year	✓960 000
Net profit after tax ✓	✓626 400
Dividends for the year ✓	☑(292 000)
Interim	✓112 000
Final 900 000 ✓ x 20c ✓	✓180 000
Balance at the end of the year	☑1 294 400

10

Note 2. Trade and other payables

Trade creditors	✓87 500
Expenses payable (accrued)	✓50 400
Income received in advance (Deferred income)	✓✓✓8 720
SARS (Income tax)	☑19 400
Shareholders for dividends	☑180 000
	☑346 020

8

5.2.2

BALANCE SHEET ON 30 SEPTEMBER 2010

ASSETS		R
Fixed assets		4 606 000
Current assets		846 900
TOTAL ASSETS		5 452 900
EQUITY AND LIABILITIES		
Shareholders' equity		<input checked="" type="checkbox"/> 4 274 400
Ordinary share capital 900 000 ✓ x R3,00✓		✓2 700 000
Share premium 100 000✓ x R2,80✓		✓280 000
Retained income	Note 1	<input checked="" type="checkbox"/> 1 294 400
Non-current liabilities		<input checked="" type="checkbox"/> 708 000
Loan from City Bank		708 000
880 000✓ + 103 600✓ – 189 600✓ – 86 000✓		
Current liabilities		✓✓470 500
Trade and other payables	Note 2	<input checked="" type="checkbox"/> 346 020
Current portion of loan (may be shown in Note 2)		✓ <input checked="" type="checkbox"/> 86 000
Bank overdraft		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 38 480
TOTAL EQUITY AND LIABILITIES		✓5 452 900

21

5.3.1	Calculate the net asset value per share. R4 274 400 <input checked="" type="checkbox"/> / 900 000 <input checked="" type="checkbox"/> shares = 474,9 cents <input checked="" type="checkbox"/>	<div></div> <div>3</div>
5.3.2	Calculate the debt-equity ratio. R708 000 <input checked="" type="checkbox"/> : R4 274 400 <input checked="" type="checkbox"/> = 0,16 : 1 or 0,2 : 1 <input checked="" type="checkbox"/> OR R794 000 <input checked="" type="checkbox"/> : R4 274 400 <input checked="" type="checkbox"/> = 0,19 : 1 or 0,2 : 1	<div></div> <div>3</div>
5.4	Would you be happy with the issue of the new shares on 1 April at a premium of R2,80? Explain TWO points, quoting figures or financial indicators to support your answer. Yes / No: Yes <input checked="" type="checkbox"/> Explanation: TWO points <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Quote figures <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Any TWO valid points e.g.</i> The issue price of R5,80 is higher than the value of the share according to the books (NAV of R4,75) – this enhances the value of the share in the books. The issue price of R5,80 is approximately the same as the market price of R5,75 – the directors have sold the new shares at a realistic value. The shareholders who bought the shares when the company started took a risk at a value of R3,00 – the public is now prepared to pay R5,75 for those shares – this is fair to the existing shareholders because the new shareholders are paying a realistic price without taking the initial risk.	<div></div> <div>7</div>
5.5	Comment on risk and gearing of the company. Explain TWO points, quoting figures or financial indicators to support your answer. TWO points <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Quote figures <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Any TWO valid points e.g.</i> The debt-equity ratio of 0,2 : 1 is low, which indicates the company is not heavily funded by equity which means it is in a low-risk position. The ROTCE of 23% exceeds the interest rates of between 13% and 15% which means that the company can gear up its returns to shareholders by making use of borrowed funds.	<div></div> <div>6</div>

TOTAL MARKS
70

QUESTION 6

6.1.1 Calculate the value of the closing stock using the weighted-average method.

$$\begin{aligned} & (R2\,880 \checkmark + R58\,560 \checkmark) / (320 \checkmark + 4\,800 \checkmark) \times 2\,400 \checkmark \\ &= R61\,440 / 5\,120 \times 2\,400 \\ &= 12 \times 2\,400 \\ &= R28\,800 \checkmark \end{aligned}$$

6

6.1.2 Calculation of:

Cost of sales:

$$\begin{aligned} & 2\,880 \checkmark + 58\,560 \checkmark - 210 \checkmark - 28\,800 \checkmark \\ &= R32\,430 \checkmark \end{aligned}$$

Gross profit:

$$57\,240 \checkmark - 32\,430 \checkmark = R24\,810 \checkmark$$

8

6.1.3 Mark-up percentage:

$$\begin{aligned} & 24\,810 \checkmark / 32\,430 \checkmark \times 100 \\ &= 76,5\% \checkmark \end{aligned}$$

3

6.1.4 Average stock turnover rate:

$$\begin{aligned} & R32\,430 \checkmark / \frac{1}{2} \checkmark (2\,880 \checkmark + 28\,800 \checkmark) = 2 \checkmark \\ &= 32\,430 / 15\,840 = 2,05 \text{ or } 2,1 \end{aligned}$$

5

6.2

Product	Problem identified	Suggestions	
Energy drinks	<p><i>Overestimated demand (led to high stock level) ✓✓</i> <i>High markup ✓✓</i></p> <p>High level of closing stock (2 400 units), value R28 800.</p> <p>All orders were satisfied (2 700 units) which indicates that demand was overestimated.</p> <p>High mark-up % (74,9%) led to lower than expected demand.</p>	<p><i>Any ONE valid recommendation ✓✓</i></p> <p>Reduce the mark-up % (or offer discounts) to increase sales volume and thereby reduce the stock levels.</p> <p>Order only what is required.</p>	<div></div> <div>6</div>
Energy bars	<p><i>Stock stolen ✓✓</i> <i>Low level of stock on hand ✓✓</i></p> <p>Lack of control over stock (4 000 units missing).</p> <p>Low value of stock on hand (4 days); means future orders might not be satisfied.</p>	<p><i>Any ONE valid recommendation ✓✓</i></p> <p>Implement internal control measures over the stock to avoid theft, e.g. regular stock counts, documentation, division of duties.</p>	<div></div> <div>6</div>
Caps	<p><i>Working days mentioned ✓✓</i> <i>Lack of stock to satisfy orders ✓✓</i></p> <p>Cathy worked only 180 days out of the 240 available days.</p> <p>Due to her absence and the lack of available stock Cathy has not taken advantage of all the orders that were received (only supplied 3 500 units compared to 7 000 ordered). This means that gross profit could have been doubled.</p>	<p><i>Any ONE valid recommendation ✓✓</i></p> <p>Cathy's attendance at work must be monitored and the ordering of stock needs to be planned better.</p>	<div></div> <div>6</div>

TOTAL MARKS
40

TOTAL: 300